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United Nations Relief and Works Agency for Palestine Refugees in the Near East

Letter dated 4 August 2015 from the Secretary-General addressed to the President of the General Assembly

I have the honour to convey a letter dated 3 August 2015 that I received from the Commissioner-General of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), Pierre Krähenbühl, in which he submitted a special report pursuant to paragraph 21 of General Assembly resolution 302 (IV) (see annex).

In that special report, which is focused on the financial crisis afflicting UNRWA, the Commissioner-General sets out the dramatic dimensions of the funding shortfall, the efforts made to secure funding and the measures taken to maintain critical UNRWA services. The report concludes with a number of proposals for Member and observer States and appropriate organs.

It is stated in the report that, as at 3 August 2015, UNRWA lacked the funds to open its more than 685 schools that provide education for some 500,000 Palestine refugee boys and girls in its five fields of operation and its eight vocational training centres that provide training for some 7,000 young people. Unless the shortfall in the core General Fund budget is fully funded by the middle of August, the financial crisis may force the suspension of the landmark education programme of UNRWA.

In view of the continued critical financial position of UNRWA, the Commissioner-General requested that an extraordinary session of the Advisory Commission should be convened on 26 July 2015. At that extraordinary session, Commission members and observers, and in particular host Governments, raised great concern and reservations about a possible delay in beginning the school year, noting the likely impact on security and stability in the countries and the region, as well as on pupils, staff and their families.

I wish to express my deep concern over the financial situation confronting UNRWA and the humanitarian, political and security consequences that will result if adequate and sustainable financing for 2015 and beyond is not made available. I should like to emphasize that, at a time when crises are growing throughout the

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Middle East, it is imperative that UNRWA, a pillar of stability for a registered population of some 5 million Palestine refugees, be provided with the resources necessary to enable it to continue to provide services to that vulnerable population in accordance with the mandate given to it by the General Assembly.

I wish to underline my full support for the proposals of the Commissioner-General to ensure immediate attention to the gravity of the situation caused by the unprecedented financial shortfall for 2015 of UNRWA and to address urgently the chronic funding issues faced for 2016 and beyond.

(*Signed*) **BAN** Ki-moon

Annex

Letter dated 3 August 2015 from the Commissioner-General of the United Nations Relief and Works Agency for Palestine Refugees in the Near East addressed to the Secretary-General

I have the honour to submit a special report on the financial crisis affecting the United Nations Relief and Works Agency for Palestine Refugees in the Near East, dated 3 August 2015, pursuant to paragraph 21 of General Assembly resolution 302 (IV).

I should be grateful if you could bring the special report to the urgent attention of the permanent representatives of Member and observer States.

I should like to take the opportunity to express my deep appreciation for the strong support for UNRWA of the Secretary-General, the Deputy Secretary-General and the staff of the Executive Office of the Secretary-General.

(*Signed*) Pierre **Krähenbühl**
Commissioner-General

Special report of the Commissioner-General of the United Nations Relief and Works Agency for Palestine Refugees in the Near East on the financial crisis facing the Agency

3 August 2015

I. Introduction

1. Palestine refugees are facing one of their most critical times ever, in an increasingly unstable Middle East. The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) is confronted with its most severe financial crisis since its establishment in 1949. Those two realities are placing immense pressure on the Agency and its ability to live up to its mandated core responsibilities.

2. UNRWA has a deficit of $101 million in its core budget, the General Fund, which is largely funded by voluntary contributions.[1] It has taken measures to ensure that its essential services in health, relief and sanitation can be delivered until the end of 2015 to protect the public health and safety of Palestine refugee and host communities. As at 3 August 2015, UNRWA lacked the funds to open its more than 685 schools that provide education for some 500,000 Palestine refugee boys and girls in its five fields of operation and its eight vocational training centres that provide training for some 7,000 young people. Unless the shortfall in the core General Fund budget is fully funded by the middle of August, the financial crisis may force the suspension of the landmark education programme of UNRWA. Without secured funding, the Agency lacks the ability to pay teachers and cover the expenses associated with operating 685 schools. This would directly affect refugee and host communities in Jordan, Lebanon, the Syrian Arab Republic, Gaza and the West Bank (including East Jerusalem) and some 22,000 staff members who would not be paid during the suspension, as well as the extended families whom they support in difficult circumstances. Furthermore, a suspension of the education programme would hamper children's enjoyment of their right to education and expose vulnerable children and young people to additional risk that could contribute to instability in the Palestine refugee community at a time of great turbulence in the Middle East; this scenario has been received with great concern by all host States.

3. In the present special report, the Commissioner-General sets out the dramatic dimensions of the funding shortfall, the efforts made to secure funding and the measures taken to maintain critical UNRWA services. The report concludes with a number of proposals for Member and observer States and appropriate organs.

II. Funding

4. By its resolution 68/76, the General Assembly extended the Agency's mandate until 30 June 2017. The Assembly has routinely urged all States, the specialized

[1] Figure reported to the Advisory Commission, which is subject to continuing adjustments for foreign exchange movements and conversion of any pledges into cash contributions or hard commitments, among others.

agencies and non-governmental organizations to support the Agency's valuable and necessary work in assisting the Palestine refugees in all fields of operation by providing or increasing their contributions to the Agency in order to address the serious financial constraints and underfunding affecting the Agency's core General Fund budget, noting that financial needs have been exacerbated by proliferating conflicts, instability and the deteriorating humanitarian situation on the ground (see, for example, resolution 69/88).

5. More than 97 per cent of the income of UNRWA is voluntarily contributed through three funding portals: the core General Fund, which covers the costs of direct delivery of core services to a population of 5 million registered Palestine refugees; a project budget, through which UNRWA seeks to meet infrastructural requirements as well as provide technical assistance and undertake monitoring and evaluation; and emergency appeals to address the situation in the occupied Palestinian territory and in the Syrian Arab Republic, Lebanon and Jordan (see also A/68/13/Add.1).

6. The significant progress made by UNRWA in expanding and deepening the donor base through its resource mobilization strategy and the generous voluntary contributions notwithstanding, funding has fallen far behind cumulative needs, which are growing with each passing year. The Commissioner-General notes that some donors have significantly increased their contributions to essential projects while the General Fund remains underfunded; extrabudgetary funds for projects and emergency appeals are not available to cover the shortfall in the General Fund. At the same time, the pressure on the General Fund has grown as a result of increased expenditure necessitated by United Nations system-wide requirements and donor demands in the areas of internal oversight, results-based management, enterprise risk management, enterprise resource planning, administration of justice and safety and security. During the past three years, this has accounted for some $48.2 million in added expenditure from the General Fund, albeit with an expected contribution to the Agency's effectiveness and efficiency and the human development of Palestine refugees. While in 2010 UNRWA had an average cash balance of about $80 million, it has had virtually no working capital since 2012. Each year over the past three years, UNRWA has had to temporarily suspend creditor payments owing to a shortage of cash, thereby reducing supplier confidence and exposing the Agency to increased legal and financial risks. At the end of 2014, creditor payments in the amount of $7.5 million were suspended and carried over to early 2015. Moreover, each year over the past five years, UNRWA has had to secure donor advances to the core General Fund from the following year, which has also directly increased the shortfall in subsequent years.

7. Although the Agency has faced financial crises in the past, today's is the most serious ever and the culmination of deteriorating financial circumstances over a period of several years. It is a crisis that affects not only core programmatic activities such as education, but also emergency appeal activities and projects, all of which are funded overwhelmingly through voluntary contributions. The Agency faces a shortfall in the General Fund of funding for core programmatic activities for 2015 of $101 million. With a workforce of about 30,000 staff, nearly all of whom are Palestine refugees, operating some 1,135 premises across its five fields and a monthly cash flow requirement of about $47 million for the costs of its teachers, doctors, social workers and other staff, the Agency cannot pay the salaries of its staff in full and cover all activities for the remainder of 2015.

8. The Agency estimates that, to continue its core services at current levels and fulfil its commitments and obligations, it would require funds to cover:

(a) The funding shortfall for 2015 in its core General Fund budget, estimated at $101 million (representing the payroll for the education programme workforce and the operational costs for running 685 schools for four months);

(b) The funding shortfall in its core General Fund budget in subsequent years, which is currently estimated to be $135.2 million in 2016;

(c) The establishment of working capital of $171 million as a minimal operational and management requirement for the Agency's finances, equivalent to three months' average expenditure.

III. Measures taken and under consideration

9. UNRWA has long maintained a high degree of cost-efficiency and cost-effectiveness. The annual cost per pupil in its schools is less than 14 per cent of that spent on children in States members of the Organization for Economic Cooperation and Development. Similarly, its average annual expenditure per person on health care is less than 1 per cent of the per capita expenditure on health in States members of the Organization for Economic Cooperation and Development. Its locally recruited Palestinian staff are on UNRWA-specific salary scales that are significantly lower than national staff performing similar functions in other United Nations funds and programmes. At the same time, UNRWA has achieved high standards of human development among the Palestine refugees in all fields of operation, as measured by key indicators of literacy, enrolment and achievement, gender parity and maternal and child health. Those achievements have been largely sustained in a region of intense protracted conflicts in the occupied Palestinian territory and the Syrian Arab Republic. It is the Agency's workforce and infrastructure, which are funded primarily from its core General Fund, that have enabled it to be one of the most effective responders in the United Nations system in rapid-onset crises, including those in Gaza, the Syrian Arab Republic and Lebanon in recent years.

10. UNRWA has developed, in consultation with host States and key donors, a medium-term strategy for the period 2016-2021 that will enable it to become even more cost-efficient and cost-effective while delivering high-quality core services and thus better able to meet the increasing needs of refugees with the resources made available to it. The strategy was welcomed by the Agency's Advisory Commission in June 2015.

11. In June, its cost-efficiency and cost-effectiveness and future strategic commitments notwithstanding, in the light of its financial projections for 2015 the Agency devised and began implementing a series of difficult measures to reduce costs while endeavouring to preserve core services to Palestine refugees. In that regard:

(a) Education comprises more than 60 per cent of the Agency's core budget. To help to address the shortfall, the Agency has examined options for allocating teachers to, and amending pupil ratios in, its 685 schools. After efforts to reduce the number of children in any class, the Agency is considering the reintroduction of a class ceiling planning number of 50 pupils per class. For more than 30 years, the

Agency has reserved, but not enforced, that planning number as the trigger point for when a class would be divided. The enforcement of such a planning number would reduce the number of teachers required to operate the Agency's schools, but also have an impact on the quality of the education delivered and undermine previous investments. The Commissioner-General notes that the Agency already operates some classes with 50 pupils and is examining measures to prevent an increase to more than 45 pupils per class while simultaneously seeking to reduce costs;

(b) On 14 May, the Agency froze the recruitment of staff funded from the General Fund until further notice. Management has been working on identifying non-critical vacant positions (i.e. those not providing direct services to Palestine refugees) with a view to reducing those posts;

(c) The Agency introduced a new policy of exceptional voluntary separation for area staff in June, which allows eligible staff to avail themselves of certain benefits in exchange for voluntarily separating from the Agency. If approved, every vacated post would then be reviewed to determine whether it should be retained;

(d) Under his overall authority to amend the UNRWA staff rules in a manner consistent with the UNRWA staff regulations, the Commissioner-General is introducing a new area and international staff rule whereby he may, on his own initiative, place relevant area and international staff on exceptional leave without pay should operations need to be suspended;

(e) On 29 June, the Agency announced that 85 per cent of its complement of some 130 international consultants and contractors would be separated in a phased process lasting until the end of September. Given that they represent some 25 per cent of the total number of international staff engaged by UNRWA, the reduction of those contracts will have an impact on the international character of the Agency;

(f) Since 2012, the Agency has implemented a range of austerity measures, including suspending business-class travel for overseas duty travel for almost all staff, restricting the use of venues other than Agency installations for Agency activities, restricting travel to essential missions, reducing expenditure on discretionary training and consultancies and introducing budget cuts during the allocation of envelopes for departments.

12. In recent years, and throughout 2014, the Commissioner-General continued to brief donors and host Governments about the Agency's financial challenges and warned of the widening shortfall. UNRWA has updated Advisory Commission members monthly on the Agency's financial situation and the Director of Finance has routinely given presentations at meetings of the Commission. In turn, Commission members and observers have provided advice on addressing the financial situation. The Working Group on the Financing of UNRWA has regularly drawn attention to the critical financial situation of the Agency in its annual reports to the General Assembly. During a regular session of the Commission, in November 2014, the Commissioner-General described the Agency's strategy to address some of the structural dimensions of the financial situation. The strategy revolved around seeking to stabilize and, where possible, increase contributions, engaging new partners to obtain new funding and adopting measures (management commitments) to address some of the financial problems.

13. At the most recent regular session of the Advisory Commission, in June 2015, the Commissioner-General informed the Commission of the funding shortfall and

explained the austerity measures taken. He stated that, owing to the General Fund shortfall, the Agency would be unable to pay the salaries of its staff in full and cover all activities beyond September.

14. In view of the situation and to consult and involve the international community fully, the Commissioner-General informed representatives of donors and host States about the serious and deteriorating financial situation on numerous occasions, including during the conference organized by UNRWA on the occasion of its sixty-fifth anniversary, held in June in New York. Both the Secretary-General and the Commissioner-General underlined the need to urgently support UNRWA work and called for mobilization by Member States to help the Agency to address its financial situation. It was noted in the Chair's summary of the event that participants had expressed great concern about the growing disparity between increasing Palestine refugee needs and the resources available to the Agency, whose structural underfunding, reflected in recurring and escalating core budget deficits, remained unresolved (see A/69/925). The Commissioner-General is deeply grateful for the support of the Secretary-General and the Deputy Secretary-General, including through direct high-level communications with key stakeholders during the latter part of July.

15. In view of the continued critical financial position of UNRWA, the Commissioner-General requested that an extraordinary session of the Advisory Commission should be convened on 26 July. At that extraordinary session, he updated the Commission on the dramatic funding shortfall and the measures taken by the Agency to address it. He shared a draft of the present special report with the Commission and reiterated that, if the General Fund shortfall of $101 million were not fully funded, the Agency would not be in a position to begin the school year on time (scheduled for late August).

16. At the extraordinary session, Commission members and observers, and in particular host Governments, raised great concern and reservations about a possible delay in beginning the school year, noting the likely impact on security and stability in the countries and the region, as well as on pupils, staff and their families. Members and observers welcomed the draft special report; their advice and comments have been taken into account in the present special report. They expressed strong support for the mandate of UNRWA, alarm about the financial crisis and a willingness to assist the Agency in exploring measures to ensure more sustainable funding of its operations funded by the core General Fund budget. While many members and observers noted the substantial contributions that they had made to UNRWA, only one member announced a possible increase in funding for 2015 or 2016.

17. As at 3 August 2015, the extraordinary efforts by the Agency to raise awareness about the situation and secure the necessary funding had not, regrettably, yielded the necessary results or commitments. As the situation currently stands, with stringent austerity and management measures in place, the Agency should just about be able to continue its services that are life-saving, protect the most vulnerable refugees from extreme hardship or maintain public health and safety until the end of 2015. Such services include the Agency's health programme, its assistance to impoverished families through the relief and social services programme and its sanitation and emergency activities, for which it has funds. Not included therein, however, is the UNRWA school and vocational training system for half a million

children and 7,000 young people in Jordan, Lebanon, the occupied Palestinian territory and the Syrian Arab Republic.

18. This means that, while services funded from the General Fund in the areas of health, relief and social services and sanitation, together with emergency assistance and projects already funded, will continue until December 2015, unless funding for the full amount of the General Fund shortfall of $101 million is secured by the middle of August, the financial crisis may force the suspension of services relating to the Agency's education programme until funding for the full amount of the shortfall is secured and the school year can begin and continue in a predictable and undisrupted manner.

19. The Commissioner-General is gravely concerned that the measures outlined above may have to be taken at a time when the Agency's services remain essential to the Palestine refugees. Education is a right of the child and essential to the post-2015 development agenda and its vision of a life of dignity for all. It is of particular concern that the measures could be required when crises are growing throughout the Middle East, in a context in which UNRWA is a pillar of stability. Refugee communities, including UNRWA staff, are protesting against these actions and tensions are rising in the 58 camps, even as the Agency continues to implement and plan for more measures necessitated by the lack of funding. In renewing the Agency's mandate, the General Assembly has routinely commended the Agency for the vital assistance that it has provided to Palestine refugees and its role as a stabilizing factor in the region (see, for example, resolutions 68/76 and 69/86). The Assembly has also regularly drawn attention to the financial challenges facing the Agency and addressed them on several occasions, including through resolutions 3331 (XXIX) B and 64/89.

20. The Commissioner-General further notes that the situation is equally perilous in terms of emergency funding. Currently, only 37 per cent of the funding required for the Agency's appeal for the Syrian Arab Republic for 2015 has been provided. Consequently, the Agency has had to scale back the amount of cash assistance distributed to Palestine refugees in the Syrian Arab Republic who are living in situations of extreme vulnerability, together with the frequency of its provision. Furthermore, Palestine refugees from the Syrian Arab Republic in Lebanon and Jordan are no longer receiving assistance towards housing, which gravely affects families without the means to secure shelter. In addition, the 2015 emergency appeal for the occupied Palestinian territory is 46 per cent funded. The Gaza reconstruction appeal, for which $720 million is sought, has received only some $227 million in pledges, of which around 70 per cent has been received in concrete financial donations.

IV. Conclusion and proposals

21. As the Agency faces what is an extremely difficult situation, the international community is confronted with a major test of its collective will to find solutions that will allow UNRWA to continue to effectively support Palestine refugees, as it has done for 65 years. What is at stake is the Agency's ability to fully deliver on the international community's reaffirmation of the necessity for the continuation of the Agency's work for the well-being, protection and human development of the Palestine refugees and for the stability of the region, pending a just resolution of the

question of the Palestine refugees. Palestine refugees are looking to UNRWA and the international community for protection and assistance, yet the ability of the Agency to respond to their pressing needs in accordance with the expectations of the General Assembly is increasingly limited.

22. Through all its trials and tribulations, the Palestine refugee community has shown a remarkable degree of resilience and a steadfast commitment to human development that has helped to make UNRWA one of the United Nations system's most effective programmes and, albeit in difficult circumstances, an extraordinary success story to the credit of both hosts and donors. Numerous independent evaluations and studies have recognized UNRWA and its core programmes for their efficiency, good results and contribution to regional stability, including those conducted in recent years by the Department for International Development of the Government of the United Kingdom of Great Britain and Northern Ireland, the European Union and the World Bank. It would be damaging to the credibility of the United Nations for the international community to allow the Agency's mandated activities to be so drastically affected and for decades of investment in human development to be unravelled when a special effort on the part of existing and new donors and partners can ensure its continuation.

23. With a view to ensuring immediate attention to the gravity of the situation caused by the unprecedented financial shortfall for 2015 currently faced by the Agency, the Commissioner-General proposes:

(a) That the present special report be brought to the attention of members and observer States and appropriate organs of the United Nations;

(b) That an emergency flash appeal be launched by the Secretary-General, calling for the full funding of the Agency's General Fund for 2015.

24. With a view to urgently addressing the chronic funding issues faced by the Agency for 2016 and beyond, the Commissioner-General proposes:

(a) That the annual UNRWA pledging conference for 2016 be brought forward to October 2015 to draw further attention to the scale and impact of the financial crisis and the urgent need for it to be effectively addressed;

(b) That a process be established, based on consultations with appropriate stakeholders, to continue to actively explore measures that will result in a decisive change towards more sustainable funding of the Agency's operations with a view to enabling UNRWA to continue to provide adequate levels of assistance and protection to Palestine refugees in accordance with its mandate.

25. The present special report is about much more than the Agency's deficit of $101 million for 2015. It is about taking decisive steps to ensure predictable and sustained funding for the human development and protection of Palestine refugees pending a just and lasting solution to their plight. UNRWA can no longer operate on the basis of monthly cash-flow forecasts.